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[1](#)B. 05 DAMASCUS 5909
[1](#)C. DAMASCUS 1979
[1](#)D. DAMASCUS 5061
[1](#)E. DAMASCUS 1696

Classified By: CDA Michael H. Corbin for reasons 1.5 b/d

[1](#)1. (C) Summary. After having kept a lower profile for most of the summer, Deputy Prime Minister for Economic Affairs, Abdullah Dardari, reemerged recently to announce a number of new economic reforms. The initiatives are part of the SARG,s slow and halting effort at reforming its moribund economy. Independent economists criticize the SARG effort to date as far too modest to address the country's looming economy challenges. Dardari,s uneven political career -- marked alternately by periods of inactivity (and criticism) and bursts of high-profile initiatives -- casts interesting light on the notion of Bashar al-Asad as economic reformer. Dardari's -- and Asad's -- inability to launch a more ambitious economic reform program is due to several factors, including the large number of recalcitrant stakeholders in the existing, corruption-ridden system, Asad's mixed motives in supporting economic reform, and his lack of steady leadership on the issue. End summary.

Dardari Reemerges

[1](#)2. (C) In September, Deputy Prime Minister Dardari reemerged after a period of relative obscurity. Like other periods when his profile was similarly lowered (ref B), Dardari,s lack of public appearances preceding that re-emergence, gave rise to speculation that his demise was imminent. Damascus,s chattering classes also talked about Dardari,s own profound frustration over his inability to implement his reform agenda and his subsequent desire to leave government.

[1](#)3. (C) Also similar to the previous pattern, Dardari,s reemergence coincided with an up-tick in new economic reforms. The pattern seemingly reaffirms Dardari,s role as the SARG,s economic reform salesman (ref B). In addition to being adept at managing a media message, as a non- Baathist who has lived and worked in the West, Dardari is also the face of reform for the international donor community. The head of a recent European Commission delegation, Alan Seatter, attributed Dardari,s success thus far to his bureaucratic infighting skills and his understanding of his limitations.

New Reforms

¶4. (U) Dardari,s set of recent reforms consists of a law implementing a Syrian stock market (ref D), the first license for a private currency exchange office (still pending), the third lowering of the corporate tax rate since Asad assumed power in 2000, and the removal of state-owned enterprises (SOE) from under the Ministry of Finance. Dardari also promised a set of new additional laws before the end of the year including: anti-dumping, consumer protection, a new NGO law, real estate, investment, and a law providing the Central Bank with its first monetary tool) treasury bills. Taken together, the announcements give the impression Syria,s incremental and often halting pace of economic reform has recently picked up momentum.

¶5. (C) The reality is more complicated, as the reforms listed above are for the most part neither new nor dramatic. They are, however, part of the SARG,s slow path to economic liberalization. As Samer Akkad, scion of one of the leading Sunni business families in Damascus, described reform under Asad to us recently, &compared to the Syria of 20 years ago, the economy has opened, but at such a slow pace that Syria continues to fall further and further behind its neighbors.8

The Reform Scorecard

¶6. (C) Independent economists are uniform in their criticism of the SARG reform effort as lacking much substance. Nabil Sukkar, director of a leading consulting firm and former World Bank economist, commented to us that the SARG,s reforms have yet to touch the country,s structural imbalances. According to Sukkar, Syria faces two looming

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medium-term economic challenges: consistently producing fewer jobs than the 200,000 new entrants each year and the country crossing over from being an oil exporter to being a net importer of oil and derivatives, sometime around 2010. Both require wide-sweeping reforms to reverse the current trend, according to Sukkar. Oil is central to the economy with an estimated 70 percent of the country,s exports and over 30 percent of government revenue coming from it. To prepare for the crossover, economists like Sukkar argue that the SARG must diversify both its export and tax base. On burgeoning unemployment, Sukkar estimates Syria currently produces enough jobs for only 50 percent of its college graduates.

¶7. (C) Another Syrian economist of international stature and advisor to the SARG, Samir Seifan, listed a number of key reforms that would have to be part of any formal plan if the SARG were to be successful in stopping its chronic economic problems from becoming acute in the next three to five years: a formal economic reform plan with benchmarks and milestones, reforming the bloated and corrupt public sector, rationalizing the ballooning costs of the country's subsidies (ref E), and addressing both high-level and systemic corruption.

The Pace of Reform

¶8. (C) Even pro-regime voices concede that the pace of reform is too slow. Currently the economy is enjoying very modest growth: 2.9 percent real GDP growth in 2006 according to the IMF, but its structure is weak and will remain vulnerable to external shocks - like a drop in oil prices or a deepening of the country's international isolation - until reform has both form and structure. Abdel Kader Husrieh, author of most economic reform legislation and an informal advisor to Deputy PM Dardari, commented to us that economic reform at its current pace would not reverse the country,s economic decline until his children's generation, at best. In an increasingly global economy, reformers like Husrieh worry about Syria being able to keep up.

Obstacles to Reform

¶9. (C) If skeptics of the regime's reform efforts are correct and the pace and scope of economic reform is too slow and too haphazard to make a significant economic difference anytime soon, the question is, why? To start with, Syria is full of opponents of reform. Bader Shallah, son of the president of Syria, s Chambers of Commerce, commented to us that one of the biggest obstacles to progress is that the large majority of Syrians feel they have a stake in the current system. In addition to the members of the Baath Party and the security services, who arguably would be the biggest losers under any structural adjustment, the 30 percent of Syrians who work for the SARG also jealously guard their positions, with many of them focused on continued access to low-level graft. (Comment: They would represent a huge disgruntled class if they lost their jobs because of an economic reform program that reduced bloated public sector employment and cut off subsidies to state-run enterprises. End comment.)

Asad as Frustrated Reformer . . .

¶10. (C) In spite of the slow pace and lack of a coherent plan for reform, conventional wisdom in Damascus, both among Syrians and the diplomatic community, is that in his heart-of-hearts, Asad is an economic reformer and has a vision to bring change to the country. Basel Nasri, President of the Syrian Young Entrepreneurs Association, commented to us that his exposure to Asad convinces him that it is only the security services and Baath party structures that stop Asad from transforming the country. Nasri and others like him, who are active in Syria, s nascent NGO community, believe that Asad is following a &China Model of reform: gradual economic liberalization as a platform for political change in the relatively distant future. Moussallam Droubi, a physician and leading businessman whose association with Asad goes back to their time in London, commented to us that even at that time Asad talked about how Syria would have to change to remain relevant in the 21st century.

. . . Or Cynical Operator

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¶11. (C) The popular picture of Asad as the frustrated reformer leaves his critics, as well as his supporters, wondering why he hasn't done more on the issues he could most easily affect if he is truly committed to reform. Some observers point to Asad's penchant for appointing economic advisors with starkly different visions of economic reform (and with personal antipathies for each other) as evidence of Asad's lack of seriousness about reform. As economist Seifan has pointed out to us, if Asad were serious about making progress, "why did he pick men for the two key positions) deputy prime minister for economic affairs and minister of finance) who had a deep and abiding hatred of one another?"

¶12. (C) Some of the most profound skeptics of Asad's commitment to reform insist that it is merely a cynical cover used to justify family corruption, which in their view has increased under Bashar al-Asad. The argument of these skeptics is that Asad and a few cronies like Rami Makhlouf are merely using reform as a lever to pry loose long-held business assets or opportunities from competitors. (Note: Ironically, Makhlouf insists that he is one of Syria, s most important reformers because of his central role in opening up key new sectors) telecommunications with the new cell phone providers SyriaTel and Areeba 94, and establishing Syria, s first private banks. End note.) Other skeptics argue that Asad uses reform cynically to reduce domestic or international pressure. He is preoccupied with retaining power, with reform only an afterthought.

¶13. (C) Comment: Dardari, s uneven track record, filled

with periods of inactivity and defensive reaction to public and private sniping from his critics, and punctuated occasionally with brief bursts of high-profile reform initiatives, is emblematic of the fate of economic reform in Syria under Bashar al-Asad. Dardari,s career casts interesting reflections on the notion of Bashar al-Asad as economic reformer. (Except for the brief period of Damascus Spring at the beginning of his rule, Asad has shown no serious commitment to the notion of political reform, with the occasional announced measures, such as promises about a new political parties, quietly abandoned or gutted of any substance.) Without Asad,s support, Dardari would have had no long-lasting political career as a reformer and would likely have been shoved aside as Deputy PM for Economic Affairs months ago, given his lack of any Ba,athist credentials. While other economic reform advisors have been dismissed or marginalized, Asad seems to recognize that his claim to the mantle of economic reform leader in Syria is for now dependent on providing Dardari with enough political cover to protect him from his enemies inside the regime.

¶14. (C)Comment Continued: There is no doubt that Asad,s motives in supporting Dardari and economic reform are complicated and likely represent an unwholesome blend of political cynicism, idealism, crony opportunism, nave faith in haphazard steps of economic liberalization, and fears about taking any economic decisions that might provoke widespread economic distress and protests. Asad faces the same legacy issues and economic challenges that face leaders across the Arab world: How to deal with globalization and the danger of losing out in the world economy while trying to build on the legacy their fathers established in simpler times. Asad certainly realizes the enormity of Syria's economic mess and may sincerely want to reform economically. However there are less positive explanations. Asad may well simply seek to expand corrupt family and crony activities. Cultivating a reputation for economic reform helps provide legitimacy to a regime that lacks any compelling claim to rule in Syria other than force. Finally, economic reform is a proven enticement for quasi-political engagement by the Europeans that could help Syria break out of its current diplomatic isolation. We are likely to continue to witness Asad,s (and Dardari,s) piecemeal, halting reform efforts, showing limited signs of progress, but the true nature of Asad's reform commitment will likely only be evident when the SARG is forced to make major economic changes (such as when oil revenues bottom out sometime around 2010).

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